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TO RUEHC/SECSTATE WASHDC IMMEDIATE 7970  
INFO RUCNASE/ASEAN MEMBER COLLECTIVE PRIORITY  
RUEHKO/AMEMBASSY TOKYO PRIORITY 3131  
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY 0645

UNCLAS PHNOM PENH 000197

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STATE FOR EAP/MLS, EB/IFD/OMA  
TREASURY FOR ANDREW JEWELL

E.O. 12958: N/A

TAGS: [EFIN](#) [PREL](#) [ECON](#) [CB](#)

SUBJECT: CAMBODIA'S BILATERAL DEBT: INTEREST RATE MAY STILL  
BE AN ISSUE

REF: A. A) PHNOM PENH 109

[1](#)B. B) PHNOM PENH 62

[1](#)1. (SBU) On January 31, Pol/Econ Chief met with Ministry of Finance Secretary General Vongsey Vissoth regarding the US-Cambodian bilateral debt, and the Prime Minister's response to EAP PDAS Stephens' request that the RGC sign the draft bilateral agreement provided to the Cambodian government last summer. The PM responded (reftel A) that while the USG and RGC were close to an agreement, he recommended further negotiation before an agreement could be signed, but did not specify what remaining issues might require additional discussion. P/E Chief updated Vissoth on the exchange between the PM and PDAS Stephens, and requested that the MEF official clarify the RGC position.

[1](#)2. (SBU) Vissoth said he was aware of the meeting and the discussion on bilateral debt, but was not privy to the PM's thinking. Vissoth opined that the interest rate of 3% was too high, and that Cambodia required a concessional rate lower than the USG proposal. P/E Chief noted that the issue of the interest rate had been debated and discussed during the negotiations over the calculation of the overall debt, and there was no further flexibility on the USG side. If the RGC wished to table a specific proposal and respond to the draft agreement, the Embassy would forward the proposal to Washington, but P/E Chief warned that the U.S. side had indicated very clearly that the USG offer submitted last year represented the USG bottom line. P/E Chief reminded the MEF official that the USG had eliminated roughly USD 100 million due to faulty or lost documentation, which represented a considerable concession on the part of the U.S. side.

[1](#)3. (SBU) Vissoth agreed, but again reiterated that the terms requested by the USG were very tough. The interest rate of 3%, Vissoth argued, was not concessional. Further, the National Assembly's budgetary law dictated that the government could only take out loans at concessional rates, and the PLO-480 agreements from 1972-74 that form the basis of the bilateral debt were not in conformity with that principle. Any decision to sign the bilateral debt agreement and accept a 3% interest rate would depend on the RGC taking up the issue with the National Assembly. P/E Chief responded that the Lon Nol-era loans preceded current RGC budgetary legislation dealing with interest rates -- concessional or otherwise -- and therefore an approach to the National Assembly should not be necessary. Vissoth said that he understood any interest rate less than 3% would require U.S. congressional approval. P/E Chief noted that Vissoth's assertion was correct, and that Washington interagency agreement to seek such approval would be highly unlikely, as

the Embassy and Washington negotiators have repeatedly told the RGC. P/E Chief urged Vissoth to respond positively to the USG offer; Vissoth said that the decision was not his and that he would wait for the PM's instructions.

14. (SBU) Comment. Vissoth's remarks were not encouraging at best and at worst, suggest that the Cambodians are still holding out for an unrealistic debt deal. Vissoth did mention that the RGC had repaid the Japanese debt of roughly USD 4.2 million related to pre-cut-off date Japanese loans; at least Japanese objections (reftel B) will not be used in future discussions, but we appear to back to a debate on interest rates. This may be another delaying tactic, however, and we would welcome Washington thinking as how best to move the discussion forward with the MEF. End Comment.  
MUSSOMELI